

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 91-155-W - ORDER NO. 93-887 ✓C  
SEPTEMBER 30, 1993

IN RE: Application of Sigfield Water Company, Inc.    )  
      for an Increase in Water Rates and Charges.    ) ORDER  
  ) APPROVING  
  ) RATES AND  
  ) CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of Application filed by Sigfield Water Company, Inc. (Sigfield or the Company) on May 17, 1993, for an increase in its rates and charges for water service provided to its customers in Clarendon County, South Carolina. This Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended and 26 S.C. Regs. 103-821 (1976), as amended.

By letter dated May 26, 1993, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. Twelve letters of Protest were

received, as well as three Petitions to Intervene.

On September 2, 1993, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1992), a panel of three (3) Commissioners, Commissioners Yonce, Butler, and Arthur was designated to hear and rule on this matter. Commissioner Yonce, the Chairman, presided. The Company was represented by William F. Austin, Esquire; the Intervenor, Consumer Advocate for the State of South Carolina was represented by Carl F. McIntosh, Esquire (the Consumer Advocate); the Intervenor, Jefferson M. Davis and Martha Jenkinson were represented by Jack W. Erter, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel. David Goldsmith originally filed a Petition to Intervene in this matter, but has moved to withdraw that intervention. This motion is granted.

The Company presented the testimony of Harold A. Sigmon and Hubert R. Avin. The Consumer Advocate presented the testimony of John J. West, Accountant. Intervenor Jefferson M. Davis and Martha Jenkinson presented the testimony of Wilson MacEwen and Virginia B. Bruner. The Commission Staff presented the testimony of D. Joe Maready, Accountant, and William O. Richardson, Utilities Engineer.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of

law:

FINDINGS OF FACT

1. Sigfield provides water service to 70 residential and 2 commercial customers in Clarendon County, South Carolina. It appears from the records that the Company is presently operating under rates set by Order No. 89-160, issued on February 21, 1989 in Docket No. 88-68-W.

2. With regard to Sigfield's present rates, the Company has a flat fee of \$200.00 per year (\$16.67 per month for water service). The Company proposes to increase this rate to \$612.00 per year (\$51.00 per month), an increase of 206%. This increase amounts to a \$29,664 increase in revenues. The present revenue of the Company is \$14,400 annually. With the increase, this would amount to \$44,064. The Company presently has a tap fee of \$500.00. The Company does not propose to change this fee at this time.

3. Sigfield asserts that its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system and to ensure adequate water services for all of its customers. Harold A. Sigmon, owner of the Company, testified that the Company is only able to remain in business because he has been subsidizing it himself. He testified that he has paid the Company's additional expenses when they came due from personal assets. Hubert R. Avin also testified. Avin testified that he had been working with Sigfield Water Company, Inc. since August

1992, and has reviewed the books of the Company and prepared its tax returns. Avin concluded that the Company's present rate structure does not allow the Company to meet its operating expenses and costs. Avin believes that the proposed rate increase will allow the Company to meet its current expenses and earn a modest profit.

4. The Consumer Advocate presented the testimony of John J. West, Certified Public Accountant, who testified concerning three accounting issues: the management fee, availability fees, and operating margin. West also commented on rate shock should the Commission grant the Company's proposed rate of \$612.00 per year. West testified that the management fee of \$12,000 proposed by the Company as an adjustment has not been paid, and as such, is not a cash expense, and that, therefore, this adjustment should be eliminated. West stated that his position regarding availability fees was that the availability fees should be included in determining the revenue requirement. Further, West testified that the proposed increase was clearly excessive, and should be reduced to generate an operating margin which is equitable and in line with previous Commission decisions.

5. The Intervenor Davis and Jenkinson presented the testimony of Wilson M. MacEwen, an Attorney and an Accountant, and Virginia B. Bruner, a resident of the territory served by the Company. MacEwen questioned a number of expenses presented by the Company, particularly challenging the Company's management fee expense, depreciation expense, and interest expense. Virginia

Bruner testified that, in her opinion, the increase requested by the Company is not justified, that it is not in line with industry standards. Further, Bruner questions the \$12,000 proposed management fee adjustment as well.

6. The Commission Staff presented the testimony of D. Joe Maready, Accountant, and William O. Richardson, Utilities Engineer. Maready presented testimony regarding Company expenses and proposed operating margin. Richardson presented testimony as to revenue and service.

7. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission Staff determined that Sigfield's operating revenues, operating expenses, and net income for return were \$14,400, \$29,291, and (\$14,891) respectively, for the test year ending December 31, 1992. The Company proposes operating revenues, expenses, and a net income for return of \$44,064, \$32,135, and \$11,929 respectively.

#### CONCLUSIONS OF LAW

1. The Company is a water utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and consequently, the validity of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon

occurrences within the test year, the Commission will consider adjustment for any known and measurable and out-of-test-year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell Telephone & Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that 12-month period ending December 31, 1992, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month test period ending December 31, 1992 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission with the exception of the adjustment for the \$12,000 in management fees. The Commission has examined this matter and does not believe that the Company justified this adjustment, nor proved it. Further, the Commission believes that the testimony of the Intervenors supports elimination of the management fee as an adjustment. This adjustment is therefore rejected. The Commission grants Staff's adjustment as to availability fees based on the same reasoning stated in Order No. 89-160, dated February 21, 1989. In that statement in that Order, the Commission held that availability fees were a contractual matter, and therefore, the Commission found that Staff's adjustment to eliminate such fees was

appropriate, and that the Commission would not approve such a fee as part of the utility's rates and charges to its customers. The Commission reaffirms that reasoning as being true in the present case. There has been conflicting testimony as to whether a contract for availability fees actually existed in the case at bar. The Commission takes no position with regard to whether or not a contract for availability fees existed in this Docket. The Commission would merely note that availability fees are normally a contractual matter, and therefore, the Commission will not approve such a fee as part of the utility's rates and charges.

Availability fees should not, therefore, constitute a part of the rate base. Staff's adjustment for total availability fees collected, i.e., subtracting the \$20,700 from rate base, is hereby granted. (Although the amount of total availability fees collected was in dispute, the Commission adopts Staff's figure of \$20,700 as being the most credible.)

4. The Consumer Advocate witness West recommended that availability fees be used in determining the revenue requirement in the case at bar. Although the Commission generally agrees with this principle, the Commission notes that only some \$400.00 in availability fees were collected during the test year ending December 31, 1992, as per the testimony of Mr. Sigmon. Therefore, the Commission holds that even though the Commission Staff did not count the \$400.00 collected as availability fees in the revenue requirement in the case at bar, the Commission holds that this makes no significant difference in the revenues, and therefore,

any error in Staff's failure to use this figure in calculating the revenue requirement is harmless error.

5. The Commission concludes that after pro forma and accounting adjustments, the Company test year operating revenues, operating expenses, and net income for return for its system were \$14,400, \$17,291, and (\$2,891) respectively. These figures are reflected in Table A as follows:

TABLE A  
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$ 14,400
Operating Expenses	17,291
Net Operating Income	\$ (2,891)
Customer Growth	-0-
Total Income for Return	<u>\$ (2,891)</u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the



utility... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin for combined operations is as follows:

TABLE B  
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$ 14,400
Operating Expenses	<u>17,291</u>
Net Operating Income	\$ (2,891)
Customer Growth	<u>-0-</u>
Total Income for Return	<u>\$ (2,891)</u>
Operating Margin	<u>(20.08%)</u>

7. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships

between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961),  
p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 20.15% operating margin. In order to have a reasonable opportunity to earn an 20.15% operating margin, the Company will need to produce \$23,040 in total annual operating revenues.

TABLE C  
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$ 23,040
Operating Expenses	<u>18,397</u>
Net Operating Income	\$ 4,643
Customer Growth	-0-
Total Income for Return	<u><u>\$ 4,643</u></u>
Operating Margin	<u><u>20.15%</u></u>

10. In order to earn the additional operating revenues necessary to earn an operating margin of 20.15%, additional annual operating revenues will be required of \$8,640. In order to earn these additional revenues, the present flat rate of \$200.00 per year (\$16.67 per month) will have to be increased to \$320.04 per year (\$26.67 per month) for the Company's customers.

11. The Commission, however, has carefully reviewed the financial status of the Company and its requested increase in its

rates and charges. Further, the Commission has also considered the testimony of the intervenors witnesses in this case, several of which who have been customers of the system for years.

12. In considering the requested increase, the Commission has considered the interest of the utility, as well as the customers of Sigfield Water Company, Inc. The Commission has determined that the proposed increase is unreasonable, and that a more appropriate increase would be accomplished with a \$320.04 per year (\$26.67 per month) flat rate as shown in Appendix A attached to this Order.

13. Accordingly, it is ordered that the rates attached on Appendix A are hereby approved for service rendered on or after October 1, 1993.

14. It is ordered that if the approved schedule is not placed in effect within three (3) months from the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

15. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water utilities as adopted by this Commission.

16. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

APPENDIX A

SIGFIELD WATER COMPANY, INC.  
2911 WAVERLY DRIVE  
SUMTER, S. C. 29150  
(803) 478-2845

FILED PURSUANT TO DOCKET NO. 91-155-W - ORDER NO. 93-887

EFFECTIVE DATE: OCTOBER 1, 1993

COMMISSION GRANTS CUSTOMER THE OPTION OF PAYING ANNUALLY OR  
MONTHLY.

WATER SERVICE

ANNUAL SERVICE CHARGE - FLAT RATE-----\$320.04

OR

MONTHLY SERVICE CHARGE - FLAT RATE-----\$26.67

SCHEDULE OF OTHER CHARGES

TAP FEE-----\$500.00